

Budget Brief – DAS Risk Management (ISF)

NUMBER CFGO-08-18

SUMMARY

The Division of Risk Management was organized in 1980 to implement a self- insurance program for the state. The division provides liability, property, and auto physical damage coverage to all state agencies, the forty school districts, over 50 charter schools, and all state-owned colleges and universities except medical malpractice coverage at the University of Utah. The division also acts as an agent in purchasing aircraft insurance for various state entities.

The Owner Controlled Insurance Program (OCIP) fund provides optional construction project insurance, but at present the only building project insured is the State Capitol renovation. Due to the lack of interest and funding concerns, the division will be phasing out this program.

The liability insurance and auto physical damage programs are entirely self funded, while the property insurance program is self-insured up to a \$3.5 million aggregate yearly deductible (increased from \$2.5 million last year) with private insurance being purchased for amounts in excess of the deductible.

ISSUES AND RECOMMENDATIONS

Rates to Remain the Same

Risk Management requests that liability insurance rates stay the same in FY 2009 as they were in FY 2008. These rates are recommended by an actuary based on claims information sent by the division at the end of each fiscal year. Each year the actuary determines whether the fund is actuarially sound and whether reserves need to be increased or decreased. Because of the state's excellent record, rates will remain the same after three consecutive years of rate decreases. Please see Issue Brief CFGO-08-04 for a review of each rate change.

Risk Management also requests that property insurance rates remain the same for FY 2009. Unlike liability rates which are self-funded, property rates are based on premiums set by private insurance companies at various levels of coverage. Actual rates will not be known until June when the property insurance companies set rates to begin July 1, 2008. To mitigate this potential unknown, Risk requests that rates remain the same, but that \$1 million of excess retained earnings be transferred from Liability to Property as further detailed below.

Figure 1: Administrative Services - ISF - Risk Management - Budget History

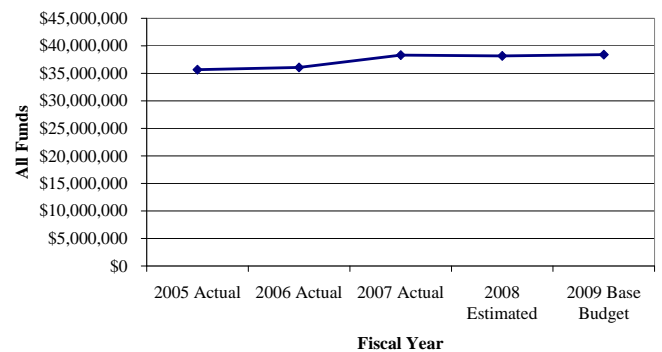


Figure 2: Administrative Services - ISF - Risk Management - FTE History

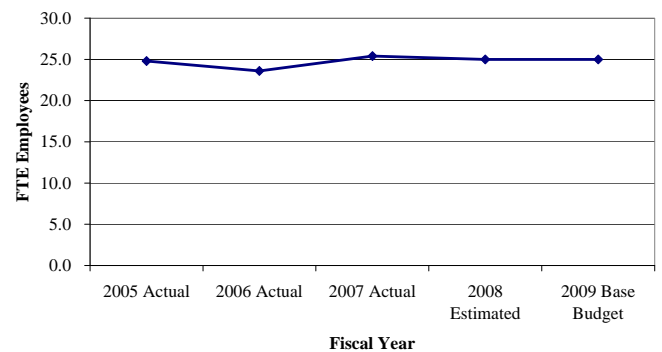
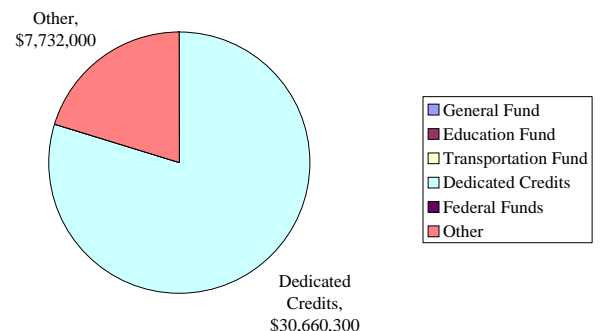


Figure 3: Administrative Services - ISF - Risk Management - FY 2009 Funding Mix



Workers Compensation Rate Decrease

During the past year Risk Management contracted with a national consulting firm to analyze whether it should continue to purchase Workers Compensation insurance and out-source claims handling or to self-insure and/or take claims handling in-house. The study concluded that the least expensive option is to continue purchasing insurance and outsourcing claims handling. Bids were solicited and the contract was awarded to the Workers' Compensation Fund of Utah which decreased the current rate for UDOT by 22 percent and the current rate for all other State employees by 8 percent.

Internal Transfer to OCIP

Risk Management proposes to move \$2 million of excess retained earnings in the Liability Insurance Fund to the Owner Controlled Insurance Program (OCIP) as contributed capital in FY 2008. The OCIP currently has a negative cash balance of \$2.8 million and a retained deficit of \$2.7 million. Risk anticipates that by the time all of the OCIP projects are completed and the final premiums are collected, the retained deficit will be approximately \$2 million. This deficit resulted from less than expected participation in the program, increased costs, and the requirement to pay insurance companies at the beginning of the policy period.

Internal Transfer to Property

Risk also proposes that \$1 million of excess retained earnings in the Liability Insurance Fund be transferred to the Property Insurance Fund as contributed capital in FY 2008. As mentioned above, property insurance rates will not be known until immediately before the new fiscal year whereas ISF rates must be set beforehand during the General Session. Rather than increase rates to state agencies and governmental entities, Risk proposes this transfer which will accomplish two things. First, it will provide adequate capital in the Property Fund to cover potential premium increases. Second it will decrease the growing retained earnings in Liability to a level allowed by federal regulation (and state auditors).

Reallocation to Subcommittee Priorities

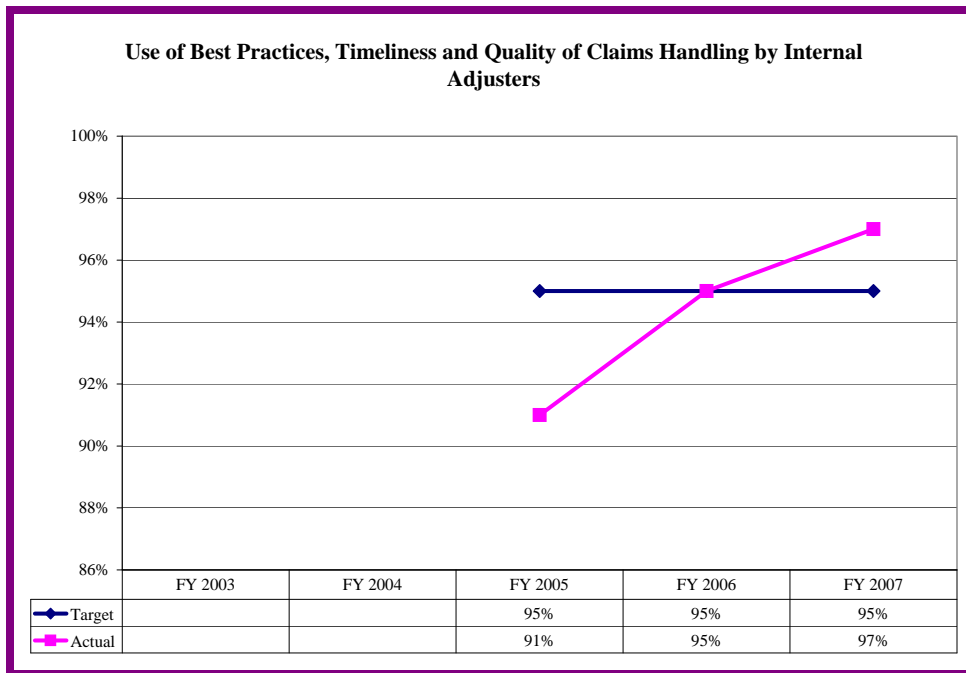
The final transfer Risk proposes in FY 2008 is to reallocate of \$1 million excess retained earnings in the Liability Insurance Fund to the Subcommittee for other priorities. The Liability fund has accrued retained earnings above the federal limit of 60 days worth of operating reserves. In order to avoid federal penalties and auditor write-ups, the division proposes reallocating this \$1 million.

Request for Additional FTE

Risk Management requests one additional FTE to handle issues and training related to charter schools that are insured by the Division. Over the last three years, the number of charter schools insured by the Division has increased more than five-fold to over 50 schools. There is an on-going need for personnel and legal training for new charter schools that in many instances have inadequate governing policies. Currently the Division has a temporary part-time individual assigned to the charter school issues, but the demands on his time have increased to the point that the Division requests that the position be made full-time. The Division is confident that the liability risks this position helps eliminate in charter schools will more than compensate for the increased cost which the Division will be able to fund internally without raising rates. The Analyst recommends that the Legislature authorize an increase of one FTE to the Division of Risk Management to cover charter school liability issues.

ACCOUNTABILITY DETAIL***Audit Grading Summary***

The division contracts with an insurance consulting firm to audit adjustors' work to see if they are meeting standards in documentation, timeliness, fairness to both sides, compliance with regulations, etc. The contractor uses a rating scale to assign a score.



The division's score of 97 percent in FY 2007 is an improvement over FY 2006 and is considered a "Superior Rating" by the insurance consulting firm.

BUDGET DETAIL

Revenue from Premiums represents rates paid by customer agencies for the traditional insurance programs. Restricted revenue comes from Workers' Compensation premiums that are passed through to the Utah Workers Compensation Fund.

LEGISLATIVE ACTION

The Analyst recommends the Legislature consider adopting:

1. FY 2009 estimated revenues of \$38,392,300 for the Division of Risk Management ISF
2. FY 2008 transfer of \$2 million excess retained earnings from Liability to the OCIP program
3. FY 2008 transfer of \$1 million excess retained earnings from Liability to the Property program
4. FY 2008 reallocation of \$1 million excess retained earnings from Liability to the Subcommittee for other priorities
5. Rates as presented separately in Issue Brief CFGO-08-04
6. 25.0 FTE
7. An increase of one FTE to cover charter school liability issues
8. Authorized Capital Outlay of \$100,000

BUDGET DETAIL TABLE

ISF - Administrative Services - ISF - Risk Management						
Sources of Finance	FY 2007 Actual	FY 2008 Appropriated	Changes	FY 2008 Revised	Changes	FY 2009* Base Budget
Premiums	26,804,200	27,541,000	(249,400)	27,291,600	(243,000)	27,048,600
Interest Income	3,145,300	2,760,000	743,600	3,503,600	108,100	3,611,700
Restricted Revenue	8,364,000	8,300,000	(936,000)	7,364,000	368,000	7,732,000
Total	\$38,313,500	\$38,601,000	(\$441,800)	\$38,159,200	\$233,100	\$38,392,300
Programs						
ISF - Risk Management Admin	29,949,500	30,301,000	494,200	30,795,200	(134,900)	30,660,300
ISF - Workers' Compensation	8,364,000	8,300,000	(936,000)	7,364,000	368,000	7,732,000
Total	\$38,313,500	\$38,601,000	(\$441,800)	\$38,159,200	\$233,100	\$38,392,300
Categories of Expenditure						
Personal Services	2,218,000	2,233,700	137,100	2,370,800	0	2,370,800
In-State Travel	15,900	18,200	(2,100)	16,100	0	16,100
Out of State Travel	21,500	13,200	12,500	25,700	1,400	27,100
Current Expense	32,242,600	36,810,300	(1,632,800)	35,177,500	171,400	35,348,900
DP Current Expense	115,700	96,200	53,000	149,200	7,500	156,700
Other Charges/Pass Thru	767,800	94,100	486,700	580,800	(463,000)	117,800
Operating Transfers	3,700,000	0	4,000,000	4,000,000	(4,000,000)	0
Depreciation	16,000	33,300	(13,300)	20,000	40,000	60,000
Total	\$39,097,500	\$39,299,000	\$3,041,100	\$42,340,100	(\$4,242,700)	\$38,097,400
Other Data						
Budgeted FTE	25.0	25.0	0.0	25.0	0.0	25.0
Actual FTE	25.4	0.0	0.0	0.0	0.0	0.0
Authorized Capital Outlay	0	100,000	0	100,000	0	100,000
Retained Earnings	7,211,000	1,179,300	1,850,800	3,030,100	294,900	3,325,000
Vehicles	6	6	0	6	0	6

*Does not include amounts in excess of subcommittee's state fund allocation that may be recommended by the Fiscal Analyst.